

Message Text

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EUR/WE - MR. HUGHES
TREASURY - MR. CROSSWHITE
DOD/DSAA - MR. HARTSOCK
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FM SECSTATE WASHDC
TO AMEMBASSY MADRID
INFO DOD/DSAA
JUSMAG MADRID

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E.O. 11652:N/A

TAGS: MASS, SP

SUBJECT: FMS FINANCING FOR SPAIN

1. WE ARE TRANSMITTING THE TEXT OF A POINT PAPER
PREPARED BY USG ON MARCH 16 MEETING CONCERNING FMS
FINANCING FOR SPAIN. ALSO WE ARE INCLUDING A SUMMARY OF
PROCEDURES FOR EXTENDING COMMITMENT PERIODS ON FMS LOANS
AND STANDARD LOAN AGREEMENT AMENDMENT. EMBASSY MAY CONVEY
TEXT TO SPANISH AS IT FEELS APPROPRIATE.

2. TEXT OF POINT PAPER FOLLOWS:

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QUOTE REPRESENTATIVES OF THE GOVERNMENT OF SPAIN (GOS) AND
OF THE UNITED STATES (USG) MET IN WASHINGTON ON MARCH 16,
1978 TO DISCUSS MATTERS CONCERNED WITH FINANCING PROVIDED
BY THE UNITED STATES TO SPAIN UNDER THE TERMS OF ARTICLE
1, SUPPLEMENTARY AGREEMENT NO. 7 TO THE TREATY OF FRIEND-
SHIP AND COOPERATION SIGNED AT MADRID ON JAN. 24, 1976.

TWO MAJOR POINTS WERE DISCUSSED AND RESOLVED AS FOLLOWS:

POINT 1. THE GOS REPRESENTATIVES STATED THAT IT WAS THE INTENT OF THEIR GOVERNMENT TO UTILIZE FULLY THE CREDIT FINANCING BEING PROVIDED BY THE U.S. AS MENTIONED ABOVE.

HOWEVER, THERE WAS CONCERN THAT FINANCING PROVIDED THROUGH LOANS FROM THE FEDERAL FINANCING BANK (FFB) COULD NOT BE FULLY DRAWN BECAUSE PAYMENT SCHEDULES FOR MATERIEL AND SERVICES ORDERED FROM THE U.S. OR DOCUMENTATION REQUIRED BY THE DEFENSE SECURITY ASSISTANCE AGENCY (DSAA) WOULD DELAY GOS REQUESTS FOR ADVANCES BEYOND COMMITMENT PERIODS SPECIFIED IN THE LOAN AGREEMENTS. AFTER GOS AND USG HAD AGREEMENT TO FINANCE A SPECIFIC PROJECT OR ORDER WITH CREDIT PROVIDED BY THE USG, THE GOS DESIRED TO HAVE THAT CREDIT REMAIN AVAILABLE FOR THAT PROJECT UNTIL UTILIZED.

THE USG REPRESENTATIVES STATED THE USG RECOGNIZES THAT THERE ARE CIRCUMSTANCES WHICH COULD DELAY GOS REQUESTS FOR ADVANCES BEYOND THE END OF THE COMMITMENT PERIOD OF A FFB LOAN AGREEMENT. ACCORDINGLY, THE USG AGREES TO EXTEND COMMITMENT PERIODS ON FFB LOANS AS REQUIRED TO ACCOMMODATE THE FUNDING REQUIREMENTS OF PROJECTS AND ORDERS WHICH HAVE ALREADY BEEN APPROVED FOR SUCH FUNDING BY THE GOS AND THE USG. HOWEVER, AS PART OF ITS AGREEMENT TO EXTEND COMMIT-

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MENT PERIODS OF FFB LOANS, THE USG DESIRES TO TERMINATE THE FINANCING OF ANY PROJECT OR ORDER WHICH HAS BEEN FINANCED FROM A FFB LOAN FOR AT LEAST 3 YEARS AND HAS HAD AT LEAST 98 OF ITS FINANCING COMPLETED. THE PURPOSE OF THIS TERMINATION ACTION IS TO PREVENT THOSE SMALL DELIVERIES WHICH MANY TIMES OCCUR AT THE END OF PROJECTS FROM CONTINUING TO HOLD A LOAN OPEN FOR A LONG AND INDETERMINATE PERIOD OF TIME. WHEN TERMINATION UNDER THESE CIRCUMSTANCES IS REQUIRED, THE USG WILL INITIATE CONSULTATIONS WITH APPROPRIATE GOS DEFENSE REPRESENTATIVES TO DEVELOP A MUTUALLY AGREEABLE SOLUTION.

THE GOS REPRESENTATIVES REQUESTED THE USG TO PROVIDE THE PROCEDURE AND FORM IT PROPOSES FOR EXTENDING COMMITMENT PERIODS OF FFB LOANS. THESE ARE ATTACHED.

POINT 2. THE GOS REPRESENTATIVES STATED THAT IF IT WERE TO PURCHASE WEAPONS SYSTEMS WHICH REQUIRED FINANCING OVER A LONG PERIOD OF TIME, AND POSSIBLY UTILIZE CREDIT FROM MORE THAN ONE LOAN AGREEMENT, IT WOULD DESIRE ASSURANCE THAT FINANCING WOULD BE AVAILABLE FOR THE ENTIRE PROJECT.

THE USG REPRESENTATIVES STATED THAT IT WAS CURRENT PRACTICE TO FINANCE PROJECTS FROM MORE THAN ONE LOAN AGREEMENT IF THAT WERE REQUIRED, AND THIS PRACTICE WOULD EXTEND TO SPANISH ORDERS. DUE TO STATUTORY LIMITATIONS,

THE USG CANNOT FIRMLY COMMIT ITSELF TO PROVIDE CREDIT PLANNED FROM FUTURE YEAR LOAN AGREEMENTS BEFORE IT RECEIVES AUTHORIZATIONS AND APPROPRIATIONS FROM THE CONGRESS. HOWEVER, THESE CREDITS CAN REASONABLY BE EXPECTED IN VIEW OF THE EXISTING TREATY COMMITMENT.

THE ABOVE UNDERSTANDINGS APPLY EQUALLY TO THE 1977 AND ALL SUBSEQUENT LOAN AGREEMENTS BY THE FFB PROVIDED LIMITED OFFICIAL USE

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UNDER OUR TREATY COMMITMENT.

THE USG IS READY TO PROCEED WITH THE 1978 LOAN AGREEMENT. THE FIRST STEP WILL BE FOR THE GOS TO DESIGNATE THE ITEMS WHICH IT PROPOSED TO FINANCE. UNQUOTE

3. LIST OF PROCEDURES FOR EXTENDING COMMITMENT PERIODS ON FEDERAL FINANCING BANK LOANS FOLLOWS:

QUOTE 1. WHENEVER GOS REPRESENTATIVES ARE CONCERNED THAT THE LENGTH OF TIME REMAINING IN A COMMITMENT PERIOD OF A FFB LOAN IS INSUFFICIENT TO PERMIT COMPLETION OF THE FINANCING OF A PROJECT OR ORDER BEING FINANCED WITH THAT LOAN, THEY WILL ADVISE THE JUSMAAG, MADRID OF THE FACTS INVOLVED.

2. JUSMAAG WILL RELAY THE GOS CONCERN TO THE DSAA, WITH ITS COMMENT, FOR THEIR REVIEW.

3. DSAA WILL REVIEW THE GOS CONCERN AND WILL INITIATE A REQUEST FOR AN EXTENSION OF THE COMMITMENT PERIOD, IF REQUIRED, TO THE U.S. DEPARTMENT OF STATE.

4. FOLLOWING AFFIRMATIVE INTER-U.S. AGENCY COORDINATION, THE DEPARTMENT OF STATE WILL APPROVE AN EXTENSION OF THE COMMITMENT PERIOD IN ACCORDANCE WITH ITS NORMAL POLICY. THIS APPROVAL WILL BE COMMUNICATED TO THE U.S. DEPARTMENTS OF TREASURY AND DEFENSE FOR ACTION.

5. THE DEPARTMENT OF TREASURY WILL REQUEST THE FFB TO PREPARE THE AMENDMENT TO THE LOAN AS AUTHORIZED BY THE DEPARTMENT OF STATE.

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6. THE FFB WILL PREPARE AND SIGN AN AMENDMENT UTILIZING A FORM SIMILAR TO THAT ATTACHED HERETO. THE FFB WILL TRANSMIT THE AMENDMENT (IN THREE COPIES) TO THE GOS FOR ACCEPTANCE AND SIGNATURE. THE AMENDMENT IS TO BE SIGNED BY THE AUTHORIZED GOS REPRESENTATIVE.

7. THE GOS WILL RETURN THE SIGNED AMENDMENT TO THE FFB. THE FFB WILL OBTAIN CONSENT AND SIGNATURE OF THE LOAN GUARANTOR (DSAA).

8. AFTER THE AMENDMENT HAS BEEN SIGNED BY THE LENDER, BORROWER AND GUARANTOR, ONE ORIGINAL COPY WILL BE PROVIDED TO EACH FOR FILING WITH THE ORIGINAL COPY OF THE LOAN AGREEMENT. UNQUOTE.

4. TEXT OF STANDARD AMENDMENT FORMAL FOLLOWS: QUOTE

AMENDMENT TO

TO THE

LOAN AGREEMENT DATED BE ANY BETWEEN THE STATE OF SPAIN AND THE FEDERAL FINANCING BANK, AND TO THE PROMISSORY NOTE DATED , EXECUTED BY THE STATE OF SPAIN.

WHEREAS, THE STATE OF SPAIN ("BORROWER") AND THE FEDERAL FINANCING BANK ("FFB"), ARE PARTIES TO A LOAN AGREEMENT DATED ("AGREEMENT"), WHICH PROVIDES FOR ADVANCES TO THE BORROWER BY THE FFB OF NOT MORE THAN ONE HUNDRED TWENTY MILLION DOLLARS (U.S. \$120,000,000.00).

WHEREAS, THE BORROWER HAS EXECUTED AND DELIVERED TO THE FFB A PROMISSORY NOTE DATED ("PROMISSORY NOTE"), IN ACCORDANCE WITH SUCH LOAN AGREEMENT, AND THE DEFENSE SECURITY ASSISTANCE AGENCY OF THE UNITED STATES DEPARTMENT

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OF DEFENSE ("DSAA") IN A GUARANTY DATED , HAS GUARANTEED THE OBLIGATION OF THE BORROWER UNDER SUCH PROMISSORY NOTE AND LOAN AGREEMENT; AND

WHEREAS, THE PARTIES HERETO DESIRE TO AMEND THE LOAN AGREEMENT AND PROMISSORY NOTE TO EXTEND THE PERIOD DURING WHICH ADVANCES THEREUNDER MAY BE MADE;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES,
IT IS AGREED TO AS FOLLOWS:

1. SECTION 1.1 OF THE LOAN AGREEMENT IS AMENDED TO
READ AS FOLLOWS:

1.1 SUBJECT TO THE TERMS AND CONDITIONS OF THIS LOAN
AGREEMENT ("AGREEMENT"), THE FFB AGREES TO MAKE
ADVANCES TO THE BORROWER FROM TIME TO TIME FROM THE DATE

OF THIS AGREEMENT TO AND INCLUDING , OR SUCH
EARLIER DATE AS THE ENTIRE LOAN OFFERED HEREIN BY THE FFB
SHALL HAVE BEEN AVAILED OF, TO AN AGGREGATE PRINCIPAL
AMOUNT UP TO ONE HUNDRED TWENTY MILLION DOLLARS (U.S.
\$120,000,000.00) THE OBLIGATION OF THE FFB UNDER THIS
SECTION BEING HEREINAFTER CALLED THE "COMMITMENT".

2. THE LAST SENTENCE OF THE FIRST PARAGRAPH OF THE
PROMISSORY NOTE IS AMENDED TO READ AS FOLLOWS:

THE FFB SHALL NOT BE OBLIGED TO ADVANCE MORE THAN
ONE HUNDRED TWENTY MILLION DOLLARS (U.S. \$120,000,000.00),
NOR TO MAKE ANY ADVANCE AFTER .

3. THIS AMENDMENT NO. SHALL TAKE EFFECT WHEN
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EXECUTED BY THE PARTIES HERETO, AND CONSENTED TO BY
DSAA.

4. EXCEPT AS AMENDED HEREIN, THE LOAN AGREEMENT AND
THE PROMISSORY NOTE SHALL REMAIN IN FULL FORCE AND EFFECT.

IN WITNESS WHEREOF, THE PARTIES HERETO HAVE CAUSED
THIS AMENDMENT NO. TO BE EXECUTED BY THEIR DULY
AUTHORIZED OFFICERS OR REPRESENTATIVES ON THE DATE
INDICATED. UNQUOTE. VANCE

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